

## Earnings Release

### Stellus Capital Investment Corporation Reports Results for the Three Months Ended March 31, 2013

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Stellus Capital Investment Corporation Reports Results for the three months ended March 31, 2013

HOUSTON—May 9, 2013 (BUSINESS WIRE)

Stellus Capital Investment Corporation (NYSE:SCM) (“Stellus” or “the Company”) today announced financial results for the three months ended March 31, 2013.

#### Highlights

##### As of March 31, 2012

(\$ in millions, except data relating to per share amounts and number of portfolio companies)

##### Portfolio results

Total assets	\$244.6
Investment portfolio, at fair value	\$203.9
Net assets	\$175.5
Weighted average yield on debt investments	12.0%
Net asset value per share	\$14.56

##### For the three months ended March 31, 2013

##### Portfolio activity

Total investments made, at cost	\$31.2
Number of new portfolio companies	4
Repayments of investments, excluding amortization	\$25.0
Number of portfolio companies at end of period	19

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**About Stellus Capital Investment Corporation:** Stellus is an externally-managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940. The Company’s investment objective is to maximize the total return to its stockholders in the form of current income and capital appreciation by investing primarily in private middle-market companies (typically those with \$5.0 million to \$50.0 million of EBITDA (earnings before interest, taxes, depreciation and amortization)) through first lien, second lien, unitranche and mezzanine debt financing, and corresponding equity investments. The Company’s investment activities are managed by its investment adviser, Stellus Capital Management. To learn more about Stellus Capital Investment Corporation, visit [www.stelluscapital.com](http://www.stelluscapital.com) under the Stellus Capital Investment Corporation link.

AVAILABLE INFORMATION: Stellus’ filings with the Securities and Exchange Commission, press releases, earnings release, and other financial information are available on its website at [www.stelluscapital.com](http://www.stelluscapital.com) under the Stellus Capital Investment Corporation link.

FORWARD-LOOKING STATEMENTS: Statements included herein may contain “forward-looking statements” which relate to future performance or financial condition. Statements other than statements of historical facts included in this press release may constitute forward-looking statements and are not guarantees of future performance or results and involve a number of assumptions, risks and uncertainties, which change over time. Actual results may differ materially from those anticipated in any forward-looking statements as a result of a number of factors, including those described from time to time in filings by the Company with the Securities and Exchange Commission including the final prospectus that will be filed with the Securities and Exchange Commission. The Company undertakes no duty to update any forward-looking statement made herein. All forward-looking statements speak only as of the date of this press release.

## Earnings Release

### Stellus Capital Investment Corporation Reports Results for the Three Months Ended March 31, 2013

Page 2 of 9

For the three months ended  
March 31, 2013

(\$ in millions, except data relating to per  
share amounts and number of  
portfolio companies)

#### Operating results

Total investment income	\$6.4
Net investment income	\$3.7
Net investment income per share	\$0.31
Adjusted net investment income*	\$4.1
Adjusted net investment income per share*	\$0.34
Dividends declared per share	\$0.34
Net increase in net assets from operations	\$5.5
Net increase in net assets from operations per share	\$0.46
Weighted average shares outstanding during the quarter	12,035,531

\* Adjusted net investment income and adjusted net investment income per share are non-GAAP measures that are calculated by excluding accrued capital gains incentive fees of \$0.4 million (\$0.03 per share) that are included in net investment income for GAAP purposes. Such accrued fees are related to both realized and unrealized gains as of March 31, 2013. The capital gains incentive fee is determined and paid annually with respect to realized capital gains (but not unrealized capital gains) to the extent such realized capital gains exceed realized and unrealized capital losses for such year. As a result, the capital gains incentive fee that will be paid by the Company for its 2013 fiscal year cannot be determined prior to the end of the year and will only be paid with respect to excess, if any, of the Company's realized capital gains through December 31, 2013, over all realized and unrealized capital losses and previously paid capital gains incentive fees through December 31, 2013.

"We are pleased to report the results of our first full quarter of operations in which we realized a capital gain of \$0.9 million," said Robert T. Ladd, Chief Executive Officer of Stellus. "We had an active first quarter and were able to further diversify the portfolio."

#### Portfolio and Investment Activity

We completed the first quarter of 2013 with a portfolio of \$203.9 million (at fair value) invested in 19 companies. As of March 31, 2013, our portfolio included approximately 29% of first lien debt, 27% of second lien debt, 43% of mezzanine debt and 1% of equity investments at fair value. Our debt portfolio consisted of 48% fixed rate investments and 52% floating rate (subject to interest rate floors), such as LIBOR. The average size of our portfolio company investments was \$10.7 million and our largest portfolio company investment was approximately \$21 million. The weighted average yield on all of our debt investments as of March 31, 2013 was approximately 12.0%.

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## Earnings Release

### Stellus Capital Investment Corporation Reports Results for the Three Months Ended March 31, 2013

Page 3 of 9

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During the three months ended March 31, 2013, we made \$31.2 million of investments in four new portfolio companies. Repayments of investments during the period totaled \$25.2 million.

#### Results of Operations

Set forth below are our results of operations for the three months ended March 31, 2013.

Investment income totaled \$6.4 million, most of which was interest on portfolio investments.

Operating expenses totaled \$2.8 million for the period and consisted of base management fees of \$0.9 million, incentive fees of \$0.7 million, fees and expenses related to our credit facilities of \$0.6 million (including interest and amortization of deferred financing costs), administrative expenses of \$0.2 million and other expenses of \$0.4 million.

Net investment income was \$3.7 million, or \$0.31 per common share (based on weighted average common shares of 12,035,531). Adjusted net investment income was \$4.1 million, or \$0.34 per common share (based on weighted average common shares of 12,035,531). Adjusted net investment income and adjusted net investment income per share are non-GAAP measures that are calculated by excluding \$0.4 million, or \$0.03 per common share, of accrued capital gains incentive fees that are included in net investment income for GAAP purposes. Such accrued fees are related to both realized and unrealized gains as of March 31, 2013.\* For the three months ended March 31, 2013, the Company recorded realized gains of \$0.9 million from the repayment, at par, of \$25 million of loans to Woodstream, which had been purchased at a discount.

The Company's investment portfolio had unrealized appreciation of \$0.9 million during the quarter, primarily related to continued tightening in the credit market.

Our net increase in net assets resulting from operations totaled \$5.5 million, or \$0.46 per common share (based on weighted average common shares of 12,035,531).

#### Liquidity and Capital Resources

Our liquidity and capital resources are derived from our committed credit facility and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and other operating expenses we incur, as well as the payment of dividends to the holders of our common stock. We used, and expect to continue to use, these capital resources as well as proceeds from public and private offerings of securities to finance our investment activities.

\* The capital gains incentive fee is determined and paid annually with respect to realized capital gains (but not unrealized capital gains) to the extent such realized capital gains exceed realized and unrealized capital losses for such year. As a result, the capital gains incentive fee that will be paid by the Company for its 2013 fiscal year cannot be determined until the end of the year and will

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## Earnings Release

### Stellus Capital Investment Corporation Reports Results for the Three Months Ended March 31, 2013

Page 4 of 9

only be paid with respect to excess, if any, of the Company's realized capital gains through December 31, 2013, over all realized and unrealized capital losses through December 31, 2013. The Company believes that providing these non-GAAP measures is useful supplemental disclosure for analyzing its financial performance given that the accrued capital gains incentive fees will not actually be paid by the Company to its investment adviser unless the circumstances set forth above are satisfied at December 31, 2013.

Our credit facility provides for borrowings in an aggregate amount up to \$115 million on a committed basis and has an accordion feature which allows for potential future expansion of the facility size to \$150 million. The exercise of the accordion will require sufficient borrowing base and additional commitments from the existing lender group and/or new lenders. As of March 31, 2013, we had \$35 million in outstanding borrowings under the credit facility.

Our operating activities used provided cash of \$2.9 million for the three months ended March 31, 2013, primarily in connection with cash interest received and net repayment of investments. Our financing activities used cash of \$30.0 million primarily from net repayments of the short-term loan and Credit Facility.

#### Distributions

On March 7, 2013, the Company's Board of Directors declared a first quarter 2013 dividend of \$0.34 per share, payable on March 28, 2013 to shareholders of record as of March 21, 2013.

Tax characteristics of all distributions will be reported to stockholders on Form 1099-DIV after the end of the calendar year.

#### Recent Portfolio Activity

During the three months ended March 31, 2013, we made \$31.2 million of investments in four new portfolio companies. During the same period the Company received repayments of investments totaling \$25.2 million, \$0.2 million of which related to amortization of existing loans.

New investment transactions which occurred during the period are summarized as follows:

- \$9.8 million investment in the second lien loan of Source HOV, which is a leading a leading business and knowledge process outsourcing firm.
- \$9.8 million investment in the first lien loan of Varel International, which is an independent global manufacturer of drill bits for the oil & gas and mining industries.
- \$8.7 million investment in the first lien loan (\$4.9mm) and second lien loan (\$3.8mm) of Grupo Hima, which operates the largest network of tertiary care hospitals in Puerto Rico and is a leading provider of ancillary healthcare services.
- \$2.9 million investment in the second lien loan of Transaction Network Service, which provides secure, mission critical connectivity and gateway services enabling customers to exchange data and complete transactions.

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## Earnings Release

### Stellus Capital Investment Corporation Reports Results for the Three Months Ended March 31, 2013

Page 5 of 9

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Our repayments were:

- \$25 million unsecured loan to Woodstream, which provides a range of branded consumer products for the garden, homecare, pest control, and pet care markets. We continue to hold a \$10 million loan to Woodstream.

#### Events Subsequent to March 31, 2013

Since March 31, 2013, we made four new investments totaling \$40.5 million and received full repayments on two investments totaling \$22.5 million which brings the investment portfolio to \$222 million (at fair value) and the average investment per company to \$10.5 million.

- On April 9, 2013, we made a \$16.7 million investment in the second lien loan of Atkins Nutritionals, Inc., the largest weight management brand in the U.S.
- On April 19, 2013, we made a \$10 million investment in the last-out, first lien loan of ProPetro Services, Inc. a private oil field services company that provides a broad range of drilling and production-related services to oil and natural gas exploration and production companies.
- On April 24, 2013, we made a \$6.9 million investment in the second lien loan of Livingston International, Inc. is North America's largest non-asset based customs broker.
- On May 1, 2013, we made a \$6.9 million investment in the new second lien loan of Securus Technologies, which is a leading independent provider of inmate telecommunications in North America.
- On April 30, we received full repayment on our second lien term loan to Securus Technologies, Inc. at par plus a 3% prepayment premium resulting in total proceeds of \$12.4 million.
- On April 30, we received full repayment on our second lien term loan to SourceHOV at par plus a 1% prepayment premium resulting in total proceeds of \$10.1 million.

#### Conference Call Information

Stellus Capital Investment Corporation will host a conference call to discuss these results on May 10, 2013, at 9:00 a.m. Eastern Daylight Time. The conference call will be led by Robert T. Ladd, chief executive officer, and W. Todd Huskinson, chief financial officer, chief compliance officer, treasurer, and secretary.

For those wishing to participate by telephone, please dial (888) 215-6895 (domestic). Use passcode 3051375. Starting approximately two hours after the conclusion of the call, a replay will be available through May 18, 2013 by dialing (888) 203-1112 and entering passcode 3051375. The replay will also be available on the company's website.

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## Earnings Release

### Stellus Capital Investment Corporation Reports Results for the Three Months Ended March 31, 2013

Page 6 of 9

#### Statement of Assets and Liabilities

As of March 31, 2013

	March 31, 2013	
	(Unaudited)	December 31, 2012
<b>Assets</b>		
Investments, at fair value (amortized cost of \$202,738,440 and \$195,455,671, respectively)	\$203,905,313	\$195,451,256
Cash and cash equivalents	35,045,836	62,131,686
Interest receivable	3,469,474	2,573,831
Prepaid loan structure fees	1,823,668	1,947,820
Prepaid expenses	344,407	438,384
<b>Total Assets</b>	<b>244,588,698</b>	<b>262,542,977</b>
<b>Liabilities</b>		
Payable for investments purchased	9,800,000	4,750,000
Credit facility payable	35,000,000	38,000,000
Short-term loan	21,999,800	45,000,943
Base Management fees payable	884,003	527,034
Incentive fees payable	683,140	-
Accrued offering costs	-	147,123
Interest payable	167,432	66,477
Other accrued expenses and liabilities	553,451	205,445
<b>Total Liabilities</b>	<b>69,087,826</b>	<b>88,697,022</b>
<b>Net Assets</b>	<b>\$175,500,872</b>	<b>\$173,845,955</b>
<b>Net Assets</b>		
Common Stock, par value \$0.001 per share (100,000,000 shares authorized, 12,050,272 and 12,035,023 shares issued and outstanding, respectively)	\$12,050	\$12,035
Paid-in capital	174,929,530	174,714,838
Accumulated undistributed net realized gain	902,922	-
Distributions in excess of net investment income	1,279,512	(874,986)
Unrealized depreciation on investments and cash equivalents	935,882	(5,932)
<b>Net Assets</b>	<b>\$175,500,872</b>	<b>\$173,845,955</b>
<b>Total Liabilities and Net Assets</b>	<b>\$244,588,698</b>	<b>\$262,542,977</b>
<b>Net Asset Value Per Share</b>	<b>\$14.56</b>	<b>\$14.45</b>

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## Earnings Release

Stellus Capital Investment Corporation  
Reports Results for the Three Months Ended  
March 31, 2013

Page 7 of 9

Statement of Operations  
(Unaudited)

For the three months ended  
March 31, 2013

<b>Investment Income</b>	
Interest income	\$6,446,440
<b>Total Investment Income</b>	<b>6,446,440</b>
<b>Operating Expenses</b>	
Management fees	884,003
Valuation fees	90,000
Incentive fees	683,140
Administrative services expenses	171,041
Professional fees	115,946
Directors' fees	89,000
Insurance expense	116,970
Interest expense and other fees	566,540
Other general and administrative expenses	42,418
<b>Total Operating Expenses</b>	<b>2,759,058</b>
<b>Net Investment Income</b>	<b>3,687,382</b>
<b>Net Realized Gain on Investments and Cash Equivalents</b>	<b>902,922</b>
<b>Net Change in Unrealized Appreciation on Investments and Cash Equivalents</b>	<b>941,814</b>
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>\$5,532,118</b>
<b>Net Investment Income Per Share</b>	<b>\$0.31</b>
<b>Net Increase in Net Assets Resulting from Operations Per Share</b>	<b>\$0.46</b>
<b>Weighted Average Shares of Common Stock Outstanding</b>	<b>12,035,531</b>

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## Earnings Release

### Stellus Capital Investment Corporation Reports Results for the Three Months Ended March 31, 2013

Page 8 of 9

**Statement of Changes  
in Net Assets (Unaudited)**

For the three months ended  
March 31, 2013

**Increase in Net Assets Resulting from Operations**

Net investment income	\$3,687,382
Net realized gain on investments and cash equivalents	\$902,922
Net change in unrealized depreciation on investments and cash equivalents	941,814
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>\$5,532,118</b>

**Stockholder distributions**

Distributions from net investment income	(4,091,908)
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**Capital share transactions**

Issuance of common stock	214,707
<b>Net increase in net assets resulting from capital share transactions</b>	<b>214,707</b>
<b>Total increase in net assets</b>	<b>1,654,917</b>
<b>Net assets at beginning of period</b>	<b>173,845,955</b>
<b>Net assets at end of period</b>	<b>173,500,872</b>

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## Earnings Release

### Stellus Capital Investment Corporation Reports Results for the Three Months Ended March 31, 2013

Page 9 of 9

#### Statement of Cash Flows (Unaudited)

For the three months ended  
March 31, 2013

#### Cash flows from operating activities

Net increase in net assets resulting from operations	\$5,532,118
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:	
Purchases of investments	(31,486,000)
Proceeds from sales and repayments of investments	25,227,431
Net change in unrealized appreciation on long-term investments	(940,288)
Increase in investments due to PIK	(265,426)
Accretion of discount	(84,027)
Net realized gain on investments	(905,747)
Changes in other assets and liabilities	
Increase in interest receivable	(895,643)
Decrease in prepaid expenses and fees	218,129
Increase in payable for investments purchased	5,050,000
Increase in management fees payable	356,969
Increase in incentive fees payable	683,140
Increase in interest payable	100,955
Increase in other accrued expenses and liabilities	348,006
<b>Net cash provided by operating activities</b>	<b>\$2,939,617</b>
<b>Cash flows from financing activities</b>	
Offering costs paid	(147,123)
Stockholder distributions paid	(3,877,201)
Borrowings under credit facility	(3,000,000)
Borrowings under short-term loan	(23,001,143)
<b>Net cash used in financing activities</b>	<b>(30,025,467)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(27,085,850)</b>
<b>Cash and cash equivalents balance at beginning of period</b>	<b>62,131,686</b>
<b>Cash and cash equivalents balance at end of period</b>	<b>\$35,045,836</b>
<b>Non-cash items</b>	
Common stock issued in connection with dividend reinvestments	\$214,707

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